2008 Annual Report

ESTec
SYSTEMS

Management Discussion & Analysis

2007/2008

Edmonton – 29 September 2008.

Forward-looking Statements

Certain statements in this report may be deemed to be forward-looking statements within the meaning of the federal and provincial securities laws. Although management believes the expectations reflected in these forward-looking statements are based on reasonable assumptions, forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results and performance of the Company to be materially different from any future results and performance expressed or implied by such forward-looking statements. Among these risks and uncertainties are:

- changes in the markets in general economic conditions;
- the extent, duration and strength of any economic recovery in the markets in which the company operates;
- changes in the Oil & Gas drilling market;
- the cost and availability of debt and equity financing;
- our ability to realize anticipated cost savings from our internal initiatives and to otherwise create and capture benefits of scale;
- our ability to obtain at reasonable cost, adequate insurance for catastrophic events, such as earthquakes, hurricanes and terrorist acts;
- changes in interest rates;
- other risks and uncertainties.

The forward looking statements should not be read as guarantees of future performance or results, and no assurance can be given that the expectations will be realized. The Company assumes no obligation to update or supplement forward-looking statements that become untrue because of subsequent events. Without limiting the foregoing, the words “believe”, “expect”, “anticipate”, “intend”, “estimate”, “plan” and similar expressions identify forward-looking statements.

Summary of activities

During the 2008 fiscal year we suffered significant setbacks. The oil & gas drilling sector functioned at below 40% of capacity for the first half of the year. As a result the design of new drilling rigs which represents a significant part of our business ceased during the first quarter. While it recovered some during the last half of the year, it is only returning to normal levels in the first quarter of the 2009 fiscal year.

The company continues to face challenges recruiting suitable staff. During the year we added additional junior engineers who are gradually coming up to standard and are starting to contribute to revenue. We also recruited an administrative manager who has instituted a sales and marketing campaign that is starting to show results as of yearend. Unfortunately we lost our engineering manager during the first quarter of the new fiscal year and are currently recruiting to replace him.

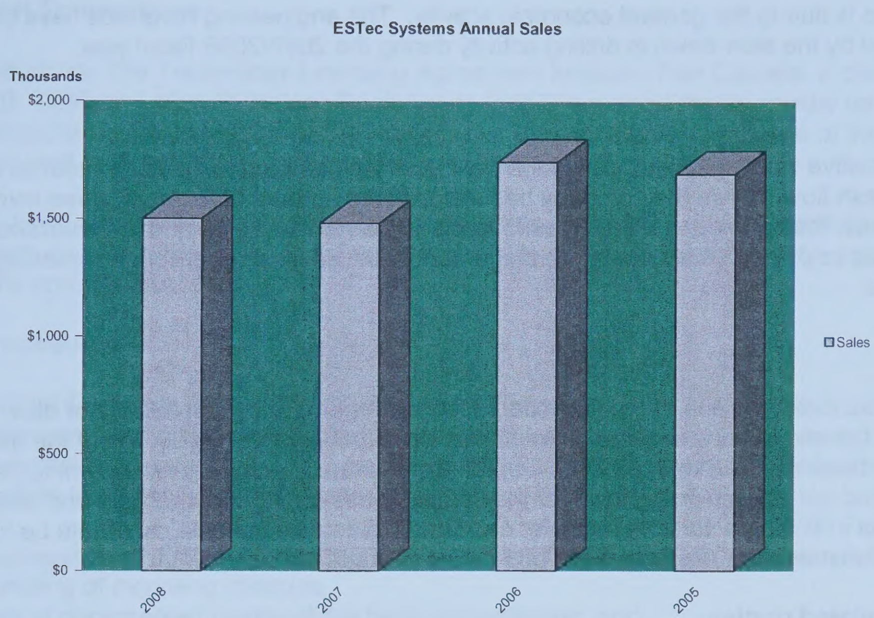
Management has engaged a mergers and acquisitions consultant to assist us to find a compatible company that we can take over. The goal is to find a company that fits in with the technical skills we have in the company but has a market different from the Oil & Gas drilling sector. During the 2008 fiscal year we investigated a number of potential matches but have not found a company at this time that passed the due diligence checks.

Over the next year we expect to see sales rise significantly with the improvement in the Oil & Gas drilling market. While an economic slowdown could have negative impacts on our sales, we expect the price of Oil and Gas to remain high enough to keep the exploration activity at a relatively high level.

Selected Annual Information

	Year ended June 30, 2008	**Year ended June 30, 2007**	**Year ended June 30, 2006**	**Year ended June 30, 2005**
Total Revenues	1,501,239	1,481,851	1,742,538	1,693,730
Income/(loss) before discontinued operations and extraordinary items	(77,992)	(28,047)	110,433	97,335
Basic income/(loss) per share	(0.01)	(0.003)	.01	.01
Diluted income/(loss) per share	(0.01)	(0.003)	.01	.01
Net income/(loss)	(77,992)	(28,047)	203,284	97,335
Basic income/(loss) per share	(0.01)	(0.003)	.02	.01
Diluted income/(loss) per share	(0.01)	(0.003)	.02	.01
Total Assets	717,839	537,409	726,360	2,181,428
Total long-term financial liabilities	373,968	326,907	335,691	1,888,123

Revenue from our engineering consulting rose steadily through the 2006 fiscal year. The end of the 2007 fiscal year and the beginning of the 2008 fiscal year, the Oil & Gas drilling sector went through a major pull back. The Oil companies radically reduced the drilling activity in an attempt to force the drilling contractors to reduce prices. This had an effect on our business which is dependant to a large extent on the activity in the Oil & Gas drilling sector. The activity in the Oil & Gas drilling sector has significantly increased toward the end of the 2008 fiscal year and the beginning of the 2009 fiscal year has returned to near normal levels. This pullback is a normal part of the business cycle for the Oil & Gas drilling sector. However for us it had a larger impact this cycle than in past cycles because the overall business activity in Alberta remained high. This high level of activity forced us to retain staffing at a higher level than we would normally have done through a downturn, i.e. had we let engineers go we would not have been able to recruit replacements when the market recovered.



Summary of Quarterly Results

	For the 3 months ended 30 June 2008	For the 3 months ended 31 March 2008	For the 3 months ended 31 Dec. 2007	For the 3 months ended 30 Sept. 2007
Total Revenues	372,155	410,188	375,809	343,087
Income/(loss) before discontinued operations and extraordinary items	(1,213)	27,334	(31,080)	(73,033)
Basic and diluted income / (loss) per share	0	0	0	(.01)
Net income/(loss)	(1,213)	27,334	(31,080)	(73,033)
Basic and diluted income / (loss) per share	0	0	0	(.01)

	For the 3 months ended 30 June 2007	For the 3 months ended 31 March 2007	For the 3 months ended 31 Dec. 2006	For the 3 months ended 30 Sept. 2006
Total Revenues	273,714	319,663	437,448	451,026
Income/(loss) before discontinued operations and extraordinary items	(74,062))	(30,103)	(3,675)	79,793
Basic and diluted income / (loss) per share	(.01)	0	0	.01
Net income/(loss)	(74,062)	(30,103)	(3,675)	79,793
Basic and diluted income / (loss) per share	(.01)	0	0	.01

The variation in sales is due to the general economic activity. The engineering revenues have been significantly impacted by the slow down in drilling activity during the 2007/2008 fiscal year.

Liquidity

The company has positive working capital. Over the next year the company expects to meet all cash requirements from cash flow. While the company has a significant amount of its receivables invested in a small number of clients, these funds are largely attributable to insurance clients and the insurance company has reserves allocated to pay these accounts. Management believes it has appropriately managed the company's credit risk.

Capital Resources

The company has a $250,000.00 line of credit available for any emergent capital outlays or other cash flow requirements. As of the end of June this line of credit had been drawn to $170,000. As of the end of August this line of credit had been reduced to $155,000. Capital expenditures planned for the coming year are expected to be covered out of cash flow. However the company has engaged a mergers and acquisitions consultant to assist us in finding a suitable takeover candidate. Should a suitable candidate be found, the company may go to the market to raise a portion of the cost of the take-over.

Transactions with related parties

During the year the Company had business transactions with corporations controlled by certain directors of the Company. These transactions, which were at market prices, are as follows:

	For the twelve months ended 30 June 2008	For the twelve months ended 30 June 2007
Payment of rent to 262233 Alberta Ltd.	$ 90,000	$ 90,000
Due to directors, non-interest bearing, unsecured	$ 167,682	$ 167,996
Due to corporations controlled by directors, non-interest bearing, unsecured	$ 206,286	$ 158,911
	$ 373,968	$ 326,907
Less: current portion of due to related parties	-	-
	$ 373,968	$ 326,907

Loans payable to related parties in the amount of $373,968 (2007 - $326,907) have no fixed terms of repayment and the parties waived their right to receive any repayment in the current fiscal year, therefore these amounts have been classified as long term.

Included in trade accounts payable is $1,863 (2006 - $8,808) owing to a director.

Equity Transactions

During the year 350,000 stock options were granted with an exercise price of $0.10; no options expired.

Off Balance Sheet Transactions

Top drive manufacture: The Technology Licensing Agreement between Farr Canada, a division of McCoy Corporation (MCB: TSX) and Allan R. Nelson Engineering (1997) Inc. provides for royalty payments to Allan R. Nelson Engineering (1997) Inc. in relation to the licensing for the manufacture and sale of the top drives based upon designs prepared by Allan R. Nelson Engineering (1997) Inc.

Farr Canada has hired a dedicated product manager who is marketing the top drive and has established a facility for manufacturing top drives. Top Drive sales typically have a long lead time. We anticipate that sales will start during the coming fiscal year.

Controls and Procedures

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of the company's disclosure controls and procedures and assessed the design of the company's internal control over financial reporting as of June 30, pursuant to the requirements of Multilateral Instrument 52-109. Management has concluded that weaknesses exist in

a) segregation of duties surrounding the recording of cash receipts, deposits and handling of incoming cheques,
b) lack of documented review of the bank reconciliation, and
c) consistently using contracts for authorization to initiate a job when purchase order numbers are not being used.

While these weaknesses have the potential to result in a material misstatement of financial information, management has determined, and the board agrees, that taking into account the present stage of the company's development, and the best interest of its shareholders, the company does not have sufficient size to warrant hiring additional staff to cover these weaknesses. To mitigate the impact of the weakness and to endure financial reporting, management has concluded that it needs to assign specific control monitoring responsibilities among senior executives to mitigate the weaknesses.

Other MD&A Requirements

Additional information relating to ESTec Systems and its subsidiaries can be found on SEDAR at www.sedar.com. Press releases announcing activities of the company will be posted on our web site www.estec.com.

On Behalf of the Board of Directors – October 08, 2008
Anthony B. Nelson
President

Corporate Directory

Directors & Officers

H. Margaret Nelson, Director, CFO

Allan R. Nelson, Director

Anthony B. Nelson, President, Director

David E. Wright, Director

Barbara E. Fraser, Director

Solicitors

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Auditors

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Ph. (780) 424-3000

Share Transfer Agent

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510 Burrard Street
Vancouver, British Columbia
V6C 3B9

Stock Exchange Listing

The shares of ESTec Systems Corporation are listed on the Toronto Venture Exchange
Trading Symbol: **ESE**

ESTEC SYSTEMS CORP.

Consolidated Financial Statements

Years ended June 30, 2008 and 2007

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ESTEC SYSTEMS CORP.

June 30, 2008 and 2007

page number

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KINGSTON·ROSS·PASNAK

September 2, 2008
Edmonton, Alberta

Auditors' Report

To the shareholders of ESTec Systems Corp.:

We have audited the consolidated balance sheets of ESTec Systems Corp. as at June 30, 2008 and 2007 and the consolidated statements of comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP
Chartered Accountants

ESTEC SYSTEMS CORP.

Years ended June 30, 2008 and 2007

	2008	2007
REVENUE	**$ 1,501,239**	**$ 1,481,851**
DIRECT EXPENSES	80,114	86,856
	1,421,125	1,394,995
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (see schedule on Page 15)	1,475,340	1,384,464
AMORTIZATION OF PROPERTY AND EQUIPMENT	22,719	26,828
LOSS (GAIN) ON DISPOSAL OF PROPERTY AND EQUIPMENT	174	(3,229)
AMORTIZATION OF PRODUCT DEVELOPMENT COSTS	-	13,558
	1,498,233	1,421,621
NET LOSS BEFORE INCOME TAXES	(77,108)	(26,626)
INCOME TAXES (Note 9)	884	1,421
NET LOSS AND COMPREHENSIVE LOSS	**(77,992)**	**(28,047)**
DEFICIT, BEGINNING OF YEAR	(1,153,799)	(1,125,752)
DEFICIT, END OF YEAR	**$ (1,231,791)**	**$ (1,153,799)**
BASIC AND DILUTED LOSS PER SHARE (Note 13)	**$ (0.01)**	**$ (0.01)**
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	10,461,629	10,461,629

ESTEC SYSTEMS CORP.

June 30, 2008 and 2007

ASSETS

	2008	2007
CURRENT ASSETS		
Accounts receivable	$ 467,478	$ 251,117
Work in progress	52,536	51,266
Prepaid expenses	42,449	54,876
Income taxes receivable	-	10,000
	562,463	367,259
PROPERTY AND EQUIPMENT (Note 5)	79,580	94,354
GOODWILL (Note 6)	75,796	75,796
	$ 717,839	$ 537,409

LIABILITIES AND SHAREHOLDERS' EQUITY

	2008	2007
CURRENT LIABILITIES		
Bank indebtedness (Note 7)	$ 210,394	$ 23,987
Accounts payable and accrued liabilities	120,172	108,051
	330,566	132,038
DUE TO RELATED PARTIES (Note 8)	373,968	326,907
	704,534	458,945
CONTRIBUTED SURPLUS	12,833	-
SHARE CAPITAL (Note 11)	1,232,263	1,232,263
DEFICIT	(1,231,791)	(1,153,799)
	13,305	78,464
	$ 717,839	$ 537,409

APPROVED BY THE BOARD

"Anthony Nelson" Director

"David E. Wright" Director

ESTEC SYSTEMS CORP.

Years ended June 30, 2008 and 2007

	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		
Loss from continuing operations	$ (77,992)	$ (28,047)
Items not affecting cash:		
Amortization of property and equipment	22,719	26,828
Stock based compensation	12,833	-
Amortization of product development costs	-	13,558
(Gain) loss on disposal of property and equipment	174	(3,229)
	(42,266)	9,110
Net change in non-cash working capital items (Note 14)	(183,084)	59,958
	(225,350)	69,068
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(8,118)	(13,552)
Proceeds on disposal of property and equipment	-	8,000
	(8,118)	(5,552)
CASH FLOW FROM FINANCING ACTIVITIES		
Due to related parties	47,061	-
Repayment of amounts due to related parties	-	(40,712)
	47,061	(40,712)
NET (INCREASE) DECREASE IN BANK INDEBTEDNESS	(186,407)	22,804
BANK INDEBTEDNESS, BEGINNING OF YEAR	(23,987)	(46,791)
BANK INDEBTEDNESS, END OF YEAR	$ (210,394)	$ (23,987)

ESTEC SYSTEMS CORP.

Years ended June 30, 2008 and 2007

Note 1
General

ESTec Systems Corp. (the "Company") owns and operates an engineering consulting firm. The principal operating subsidiary of the Company is Allan R. Nelson Engineering (1997) Inc.

The Company was incorporated under the Alberta Business Corporations Act and is listed with the TSX Venture Exchange.

Note 2
Going Concern

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that ESTec Systems Corp. (the "Company") will be able to realize its assets and discharge its liabilities in the normal course of business. However, the Company has in the past experienced significant operating losses and its ability to continue operations is dependent upon its ability to achieve profitability or secure additional debt or equity financing.

Although there is no assurance, management believes that the going concern basis is appropriate. Accordingly, these financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported revenues and expenses and balance sheet classifications used that would be necessary if the going concern assumption was not appropriate. Such adjustments could be significant.

Note 3
Significant Accounting Policies

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The precise determination of many assets and liabilities is dependent upon future events. The financial statements have, in management's opinion, been prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Basis of Presentation
These consolidated financial statements are expressed in Canadian dollars and include the accounts of the Company and its wholly-owned subsidiary, Allan R. Nelson Engineering (1997) Inc. All intercompany balances have been eliminated.

Revenue Recognition
Sales revenue is comprised of revenues from consulting and engineering contracts. It is recorded when the related service is provided, in the amount as determined by the contract for services with the customer, and collectibility is reasonably assured.

Work in Progress
Costs recoverable for services provided but not yet billed are shown as work in progress. Cost is measured based on the number of hours allocated to the job multiplied by the hourly payroll rate of the professional and the actual cost of associated disbursements.

ESTEC SYSTEMS CORP.

June 30, 2008 and 2007

Note 3
Significant Accounting Policies
Continued...

Income Taxes
The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Changes to the balances are recognized in income when they are expected to occur. A valuation allowance is provided to the extent that it is more likely than not that future tax assets may not be realized in the near term.

Property and Equipment
Property and equipment are recorded at cost. Expenditures on major replacements, extensions and improvements are capitalized. The cost of maintenance, repairs and renewals or replacements, other than those of a major nature, are charged to expense as incurred. The Company provides for amortization at an annual rate, which will amortize the original cost to the estimated salvage value over the useful life of the assets.

Amortization is calculated using the declining balance method at the following annual rates:

	Rate
Computer hardware	20%
Computer software	30%
Equipment	20%
Office equipment	20%
Inspection equipment	20%

Impairment of Property and Equipment
Property and equipment are tested for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess carrying value of the asset over its fair value.

ESTEC SYSTEMS CORP.

June 30, 2008 and 2007

Note 3
Significant Accounting Policies
Continued...

Financial Instruments
The CICA has issued new guidance related to financial instruments that is effective for the Company commencing July 1, 2007.

CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement" provides guidance on when a financial instrument must be recognized on the balance sheet and how it is to be measured. It also provides guidance on the presentation of gains and losses on financial instruments. The Company has elected to apply the following treatment to each of its significant categories of financial instruments:

Financial statement item	Classification	Measurement
Bank indebtedness	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost

The Company has also adopted CICA Handbook Section 3861, "Financial Instruments - Disclosure and Presentation" and CICA Handbook Section 1530, "Comprehensive Income".

The Company's adoption of these new accounting standards on July 1, 2007 had no material impact on the financial statements of the Company.

Goodwill
Goodwill represents the excess of the purchase price paid for Allan R. Nelson Engineering (1997) Inc. over the fair value of the net assets acquired. Management annually reviews the valuation of this goodwill based on the estimated future cash flows of Allan R. Nelson Engineering (1997) Inc. Management will also review the valuation in the event of any circumstances which might have impaired the fair value. It was concluded that no impairment exists in the value of the goodwill at June 30, 2008 or 2007.

Stock Based Compensation
The Company has a stock option plan that provides for the issuance of stock options to key employees, directors and officers as described in Note 11. The value is recognized over the applicable vesting period as an increase to compensation expense and contributed surplus. When the options are exercised, the proceeds received by the Company, together with the amount in contributed surplus, would be credited to share capital.

Loss Per Share
Loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, deemed proceeds from potentially dilutive securities are considered to be used to acquire common shares at an average stock price during the year.

Shares provided as security for any share purchase financing agreement are excluded from the calculation for the basic earnings per share. These shares have not been included in diluted earnings per share as the result is anti-dilutive.

ESTEC SYSTEMS CORP.

June 30, 2008 and 2007

Note 3
Significant Accounting Policies
Continued...

Statement of Cash Flow
The Company uses the indirect method of presentation in its Statement of Cash Flow.

Measurement Uncertainty
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the reporting period. Actual results could differ from those estimates. The significant estimates pertain to the recoverability of accounts receivable and work in progress, the physical and economic lives of property and equipment, and the valuation of goodwill.

Note 4
Future Changes in Accounting Policies

The CICA has announced several future changes in accounting policy which will affect the financial statements of the Company subsequent to June 30, 2008. The significant changes, along with the impact on the financial statements for the Company are as follows:

International Financial Reporting Standards
The Accounting Standards Board ("AcSB") establishes financial accounting and reporting standards for use by Canadian entities. It also participates in the development of internationally accepted accounting standards. The AcSB is accountable to the Accounting Standards Oversight Council, an independent body established in September 2000 by the CICA. On February 13, 2008, the AcSB announced that the use of International Financial Reporting Standards ("IFRS") is required for fiscal years beginning on or after January 1, 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP. Entities will be required to provide comparative IFRS information for the previous fiscal year. The Company is evaluating the impact of the adoption of IFRS.

Capital Disclosures
In December 2006, the CICA issued Handbook Section 1535 "Capital Disclosures", which establishes guidelines for the disclosure of information on an entity's capital and how it is managed. Effective for the Company's fiscal periods beginning July 1, 2008, this enhanced disclosure enables users to evaluate the entity's objectives, policies and processes for managing capital. This new requirement is for disclosure only and will not impact the financial results of the Company.

ESTEC SYSTEMS CORP.

June 30, 2008 and 2007

Note 4
Future Changes in Accounting Policies Continued...

Financial Instruments
The CICA issued Handbook Section 3862 "Financial Instruments - Disclosure" and Handbook Section 3863, "Financial Instruments - Presentation" to replace Handbook Section 3861 "Financial Instruments - Disclosure and Presentation". Handbook Section 3862 requires enhanced disclosure of the nature and extent of financial instrument risks and how an entity manages those risks. Handbook Section 3863 carries forward the existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective for fiscal periods beginning on or after January 1, 2008 for the Company. This new requirement is for disclosure only and will not impact the financial results of the Company.

Intangible Assets
The CICA issued Handbook Section 3064 "Goodwill and Intangible Assets" to replace Handbook Section CICA 3062 "Goodwill and Other Intangible Assets". Handbook Section 3064 "Goodwill and Intangible Assets" establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This section is effective for interim and annual financial statements for years beginning on or after October 1, 2008. The provisions relating to the definition and initial recognition of intangible assets are equivalent to the corresponding provisions of IAS 38, "Intangible Assets". The Company is evaluating the impact of the adoption of Handbook Section 3064 "Goodwill and Intangible Assets".

Note 5
Property and Equipment

			2008	2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	$ 71,613	$ 37,255	$ 34,358	$ 33,989
Computer software	97,403	75,864	21,539	30,770
Equipment	31,135	19,649	11,486	14,357
Office equipment	27,248	19,004	8,244	10,297
Inspection equipment	17,296	13,343	3,953	4,941
	$ 244,695	**$ 165,115**	**$ 79,580**	**$ 94,354**

Amortization provided for in the current year totaled $22,719 (2007 - $26,828).

Note 6
Goodwill

	2008	2007
Goodwill, at cost	$ 133,150	$ 133,150
Less accumulated amortization (prior to 2002)	57,354	57,354
	$ 75,796	$ 75,796

ESTEC SYSTEMS CORP.

June 30, 2008 and 2007

Note 7
Bank Indebtedness

Bank indebtedness is comprised of the following:

	2008	2007
Cash in bank	$ 19,356	$ 22,548
Cheques written in excess of bank balance	(59,750)	(31,535)
Bank operating lines	(170,000)	(15,000)
	$ (210,394)	$ (23,987)

The bank operating line is authorized to a total of $250,000 with interest payable at prime plus 1.5%. A general security agreement and limited guarantees from directors and related parties in the amount of $187,500 have been pledged as collateral for the bank operating lines.

Note 8
Related Party Transactions and Balances

During the year, the Company had business transactions with corporations controlled by certain directors of the Company. These transactions, which were in the normal course of operations and measured at the exchange value agreed between the parties, are as follows:

	2008	2007
Payment of rent to a company controlled by certain directors	$ 90,000	$ 90,000

	2008	2007
Due to directors, non-interest bearing, unsecured	$ 167,682	$ 167,996
Due to corporations controlled by directors, non-interest bearing, unsecured	206,286	158,911
Due to related parties	$ 373,968	$ 326,907

Loans payable to related parties in the amount of $373,968 (2007 - $326,907) have no fixed terms of repayment and the parties have waived their right to receive any repayment in the current fiscal year, therefore these amounts have been classified as long term.

Included in trade accounts payable is $1,863 (2007 - $8,808) owing to a director.

ESTEC SYSTEMS CORP.

June 30, 2008 and 2007

Note 9
Income Taxes

As at June 30, 2008, the Company and its subsidiaries have $936,069 in non-capital losses and $ 873,241 of net capital losses, subject to confirmation by taxation authorities, which can be used to reduce future income for tax purposes. Net capital losses are not subject to expiry. Non-capital losses expire as follows:

2009	$ 31,445
2010	632,497
2014	229,412
2015	2,155
2027	85
2028	40,475
	$ 936,069

The potential benefit of $276,140 (2007 - $315,100) of these non-capital losses has not been recorded in these consolidated financial statements as there is uncertainly when this benefit will be used.

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets and liabilities as of June 30, 2008 are as follows:

	2008	2007
Future income tax assets:		
Non-capital losses	$ 276,140	$ 315,100
Capital losses	152,817	152,800
Valuation allowance	(381,622)	(413,500)
	47,335	54,400
Future income tax liabilities:		
Unbilled revenue	16,891	16,500
Property and equipment	3,944	11,400
Goodwill	26,500	26,500
	47,335	54,400
Net future tax assets (liabilities)	$ -	$ -

ESTEC SYSTEMS CORP.

June 30, 2008 and 2007

Note 9
Income Taxes
Continued...

The components of income tax expense are as follows:

	2008	2007
Tax recovery at the statutory rate of 29.5% (2007 - 32.12%)	$ (23,006)	$ (8,552)
Amortization claimed in excess of capital cost allowance	6,367	12,580
Non-capital losses carried forward	11,989	-
Non-deductible expenses	4,777	932
Accounting loss on disposal of capital assets	51	-
Change in work in progress	(389)	-
Permanent differences and other	1,095	(3,539)
	$ 884	$ 1,421

Note 10
Contributed Surplus

The Company uses the fair value based method to account for stock-based compensation. Fair values are determined using the Black Scholes Model. Compensation costs are recognized over the vesting period as an increase to compensation expense and contributed surplus. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus, is credited to capital stock.

	2008	2007
Opening contributed surplus	$ -	$ -
Fair value of options granted - recorded as compensation expense	12,833	-
	$ 12,833	$ -

Note 11
Share Capital

Authorized:
200,000,000 common shares without par value

Issued:

	2008		2007	
	Number of Shares	Stated Capital	Number of Shares	Stated Capital
Balance - End of year	10,461,629	$ 1,232,363	10,461,629	$ 1,232,363

ESTEC SYSTEMS CORP.

June 30, 2008 and 2007

Note 11
Share Capital
Continued...

Stock option plan
The Company has a stock option plan that provides for the issuance of stock options to key employees, directors, and officers. Stock options allow the holder to obtain one common share for each stock option exercised. These share options vest immediately once they have been granted. Outstanding stock options will expire over a period ending no later than February 7, 2013. The Company has reserved 1,046,162 shares in Treasury to meet share options outstanding, less options already issued.

	2008			2007		
	Shares		Weighted Average Exercise Price	Shares		Weighted Average Exercise Price
Number of shares under option						
Beginning of year	300,000	$	0.10	575,000	$	0.19
Options granted	350,000		0.10	-		-
Options exercised	-		-	-		-
Options cancelled or expired	-		-	(275,000)		0.26
End of year	650,000	$	0.10	300,000	$	0.10

Using the Black Scholes option pricing model, using a spot rate of $0.06, a strike rate of $0.10, maturity of 5 years, a risk free rate of 3.23% and a volatility of 87.25%, the fair value of the options noted above at the date of their issuance was $12,833.

At the end of the year, the following options were outstanding:

	Number of share options outstanding - June 30, 2008	**Weighted average remaining contractual life (years)**
Options outstanding ($0.10 exercise price)	650,000	3.55

ESTEC SYSTEMS CORP.

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Note 12
Financial Instruments

Fair value

The carrying amount of the Company's accounts receivable, bank indebtedness, and accounts payable and accrued liabilities approximate their fair value due to the short-term maturities of these amounts.

The fair value of amounts due to related companies have not been estimated since these items are not marketable and are not subject to terms and conditions that would otherwise be available with arm's length parties.

Credit risk

The Company is exposed to credit risk through trade receivables and work in progress. In the normal course of business, the Company evaluates the financial condition of its customers on a continuing basis and reviews the credit worthiness of all new customers. Management assesses the need for allowances for potential credit losses by considering the credit risk of specific customers, historic trends, and other information.

The Company is subject to a concentration of credit risk with respect to $188,144 in accounts receivable from the Company's three largest customers at June 30, 2008.

Interest rate risk

The Company's bank operating lines are subject to fluctuations in interest rates. Based on the amount of the operating line at June 30, 2008, fluctuations in the interest rate would not materially affect the operating results of the Company.

Note 13
Diluted Loss Per Share

Options to purchase 650,000 common shares that were outstanding as of June 30, 2008 were not included in the computation of diluted earnings per share, since the effect of these options was anti-dilutive.

Note 14
Changes in Non-Cash Working Capital

	2008	2007
Accounts receivable	$ (216,361)	$ 132,915
Work in progress	(1,270)	13,410
Prepaid expenses	12,427	(4,520)
Accounts payable and accrued liabilities	12,120	(96,847)
Income taxes receivable	10,000	15,000
	$ (183,084)	$ 59,958

ESTEC SYSTEMS CORP.

Years ended June 30, 2008 and 2007

	2008	2007
Salaries and benefits	$ 1,073,227	$ 1,021,947
Rent	90,000	90,000
Professional fees	89,490	49,657
Insurance	55,916	55,950
Advertising and promotion	46,783	42,444
Technology and telecommunications	20,272	23,005
Office supplies and maintenance	19,805	22,227
Repairs and maintenance	17,298	37,896
Public company compliance	13,779	12,135
Stock based compensation	12,833	-
Bank charges and interest	12,054	8,250
Dues, memberships and business taxes	11,711	19,062
Bad debts	8,000	-
Office	2,146	715
Courier and freight	2,026	1,176
	$ 1,475,340	$ 1,384,464

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